



## ***COMMONWEALTH of VIRGINIA***

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Secretary of Finance

May 11, 2018

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### **MEMORANDUM**

TO: The Honorable Ralph S. Northam

THROUGH: The Honorable Clark Mercer

FROM: Aubrey L. Layne, Jr.

SUBJECT: April Revenue Report

April is a significant month for revenue collections. In addition to regular collections of withholding and sales taxes, final payments for tax year 2017 and the first estimated payment for tax year 2018 were due from corporations on April 17. In addition, a portion of estimated and final payments from individuals, which are due May 1, are typically received in April, but the amount received in April versus May can vary from year to year. Therefore, the timing of these receipts between April and May can distort monthly growth rates.

Total general fund revenue collections rose 17.8 percent in April. Receipts of individual nonwithholding payments before the May due date drove the growth, although withholding, sales, corporate and recordation tax collections all posted solid growth for the month. On a fiscal year-to-date basis, total revenue collections rose 6.7 percent through April, ahead of the annual forecast of 3.4 percent growth, primarily as a result of approximately \$400 million in unanticipated nonwithholding payments.

### **National Economic Indicators**

Recent national indicators depict a strengthening economy.

- According to the advance estimate, real GDP rose at an annualized rate of 2.3 percent in the first quarter of 2018, following 2.9 percent growth in the fourth quarter of 2017.

- Payroll employment rose by 164,000 jobs in April, below expectations. The March gain was revised up by 33,000 to 135,000. In a separate report, the unemployment rate fell to 3.9 percent, largely due to a contraction in the labor force.
- Initial claims for unemployment rose by only 2,000 to 211,000 during the week ending April 28. The four-week moving average fell by 7,750 to 221,500, the lowest level since March 3, 1973.
- The Conference Board's index of leading indicators rose 0.3 percent in March following a 0.7 percent increase in February, suggesting the economic expansion should strengthen over the coming months.
- The Conference Board's index of consumer confidence rose 1.7 points to 128.7 in April. Both the expectations and present conditions components increased for the month.
- Conditions in the manufacturing sector were somewhat weaker than expected in April. The Institute of Supply Management index fell from 59.3 to 57.3, but remains in expansionary territory.
- The CPI fell 0.1 percent in March after a 0.2 percent increase in February. The index stands 2.4 percent above March 2017. Core inflation (excluding food and energy prices) rose by 0.2 percent, and is 2.1 percent above a year ago.
- At its May meeting, the Federal Reserve left the federal funds target rate range unchanged at 1.50 to 1.75 percent. A total of four rate hikes are anticipated in 2018, with the next one likely to occur at the upcoming policy meeting on June 13.

### **Virginia Economy**

In Virginia, payroll employment rose 1.1 percent from March of last year. Northern Virginia posted growth of 1.8 percent; Hampton Roads grew 0.1 percent; and Richmond-Petersburg rose 0.6 percent. The seasonally adjusted unemployment rate fell 0.1 percentage point to 3.4 percent in March, the lowest rate since March 2008.

The Virginia Leading Index fell less than 0.1 percent in March after increasing 0.6 percent in February. The U.S. leading index and future employment improved in March while auto registrations declined and initial claims rose. The indexes increased in Northern Virginia, Hampton Roads, Charlottesville, Bristol, Harrisonburg, and Staunton while decreasing in Richmond, Lynchburg, Blacksburg, and Winchester. The Roanoke index was unchanged.

### **April Revenue Collections**

Total general fund revenue collections rose 17.8 percent in April. Receipts of individual nonwithholding payments before the May due date drove the growth, although withholding, sales, corporate and recordation tax collections all posted solid growth for the month. On a fiscal year-

to-date basis, total revenue collections rose 6.7 percent through April, ahead of the annual forecast of 3.4 percent growth.

***Net Individual Income Tax (70% of general fund revenues)***: Through April, collections of net individual income tax rose 8.4 percent from the same period last year, ahead of the annual estimate of 3.4 percent growth. Performance in each component of individual income tax is as follows:

***Individual Income Tax Withholding (64% of general fund revenues)***: With an additional deposit day compared with April of last year, collections of payroll withholding taxes rose 6.1 percent for the month. Year-to-date, collections have risen 4.4 percent, ahead of the annual estimate of 3.5 percent growth.

***Individual Income Tax Nonwithholding (16% of general fund revenues)***: April is a significant month for collections in this source. Final payments for tax year 2017 and the first estimated payment for tax year 2018 are both due at the beginning of May.

Collections in nonwithholding were \$876.9 million compared with \$628.2 million in April of last year, an increase of 39.6 percent. To date, about 83 percent of the nonwithholding forecast has been collected, and year-to-date collections are 23.6 percent above the same period last year, well ahead of the annual estimate of a 4.3 percent increase.

Typically, a portion of final payments for calendar year 2017 which were due May 1 are received in April; however, the amount varies from year to year. Estimated and final payments will continue to be processed in May. Therefore, April and May collections must be analyzed together to accurately assess growth in this source. The final estimated payment for the fiscal year (second calendar year payment for 2018) is due June 15.

***Individual Income Tax Refunds***: The Department of Taxation issued \$499.8 million in refunds in April, compared with \$469.1 million in the same period last year, an increase of 6.5 percent. Since the beginning of the filing period beginning January 1, TAX has issued 2.3 million refunds, about the same number through April of last year. Year-to-date, refunds have increased by 4.2 percent, trailing the annual estimate of 5.8 percent growth. However, significant uncertainty remains, as many high net worth individuals have not filed 2017 state tax returns.

***Sales Tax (18% of general fund revenues)***: Collections of sales and use taxes, reflecting March sales, rose 5.3 percent in April. On a year-to-date basis, collections have risen 3.2 percent, close to the annual estimate of 3.0 percent growth.

***Corporate Income Tax (5% of general fund revenues)***: In April, corporations made their first estimated payment for tax year 2018 and made either a final or extension payment for tax year 2017. Collections of corporate income taxes were \$181.0 million in April, compared with receipts of \$162.5 million in April of last year, an increase of 11.4 percent. Year-to-date collections have increased 7.2 percent from the same period last year, ahead of the annual estimate of 5.7 percent growth.

**Wills, Suits, Deeds, Contracts (2% of general fund revenues):** Collections of wills, suits, deeds, and contracts – mainly recordation tax collections – were \$33.2 million in April, compared with \$30.1 million in April of last year, an increase of 10.2 percent. On a year-to-date basis, collections are down 0.3 percent, trailing the annual forecast of 3.3 percent growth.

**Insurance Premiums (2% of general fund revenues):** Insurance companies also made their first estimated payment for tax year 2018 in April. Collections were \$128.5 million compared with \$126.1 million in April of last year, a 1.9 percent increase. Year-to-date collections through April were \$212.2 million compared with \$223.3 million in the same period last year, a decline of 5.0 percent and trailing the annual estimate of 6.2 percent.

### **Other Revenue Sources**

The following list provides data on April collections for other revenue sources:

	<u>Year-to-Date</u>	<u>Annual Estimate</u>
Interest Income (0.4% GF revenues)	16.8%	21.9%
ABC Taxes (1% GF revenues)	3.1%	4.3%

**All Other Revenue (2% of general fund revenues):** Receipts in All Other Revenue fell 12.9 percent in April, \$32.9 million compared with \$37.8 million a year ago. On a year-to-date basis, collections of All Other Revenue fell 5.4 percent from the same period last year, compared to the annual estimate of a 2.2 percent decline.

### **Summary**

April is a significant month for revenue collections. In addition to regular collections of withholding and sales taxes, final payments for tax year 2017 and the first estimated payment for tax year 2018 were due from corporations on April 17. Also, a portion of estimated and final payments from individuals, which are due May 1, are typically received in April, but the amount received in April versus May can vary from year to year. Therefore, the timing of these receipts between April and May can distort monthly growth rates.

Total general fund revenue collections rose 17.8 percent in April. Receipts of individual nonwithholding payments before the May due date drove the growth, although withholding, sales, corporate and recordation tax collections all posted solid growth for the month. On a fiscal year-to-date basis, total revenue collections rose 6.7 percent through April, ahead of the annual forecast of 3.4 percent growth.

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May and June are also significant collections months. Individual estimated and final payments will continue to be processed in May and estimated payments for corporations, individuals, and insurance companies are due in June.